MONTHLY TAX FEATURES

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Tax Foundation, Inc.

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States' Tax Take Hits $125 Billion, Tops Income and Population Gains

State tax collections continued their unabated move upward in fiscal year 1979, scoring their 39th consecutive increase since 1940, when the Bureau of the Census began publication of annual state tax data, according to Tax Foundation economists. The latest year's gain of 10.3 percent brought total collections to $125 billion. Although it represented a sizable dollar rise over 1978 (almost $12 billion), it was the smallest percentage increase since the recession year 1975, when the rise was only 8 percent. The slower rate of growth in 1979 appears to reflect recent statutory reductions in state taxes, especially personal income levies, according to Foundation researchers.

The 1979 state tax take was three times as large as a decade earlier. For the period 1969 to 1979 taxpayer contributions to state treasuries swelled at an average annual rate of 11.5 percent. This increase far outpaced most economic indicators. For example, population rose an average of only eight-tenths of one percent annually, consumer prices 7.0 percent a year, and personal income 9.9 percent annually. (Federal taxes, rising by 15.1 percent from 1978 to 1979, far outpaced the latest state increase for the year; however, for the preceding decade the annual rise in Federal taxes, 9.7 percent, was almost two percentage points below the state increase.)

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Tax Index by Level of Government and Related Measures
Quarterly, at Seasonally Adjusted Annual Rates, 1967 = 100

Year and quarter	Tax Index: All governments	Tax Index: Federal	Tax Index: State and local	GNP index[a]	Price index[b]
1978 I	279.1	264.7	309.1	252.6	186.1
II	295.3	282.8	321.4	264.2	190.9
III	302.8	294.3	320.5	271.2	194.2
IV	315.5	308.6	330.1	280.7	198.4
1979 I	322.3	316.4	334.7	287.8	202.8
II	328.5	323.4	339.2	292.6	207.3
III	340.3	336.1	349.1	301.0	211.6
IV	351.7	349.3	356.5	308.5	215.9
1980 I[r]	359.6	358.3	362.3	316.6	220.9
II[d]	355.1	353.5	358.4	317.0	226.5

[a]Gross national product in current dollars.
[b]Implicit price deflator for gross national product.
[r]Revised.
[d]Preliminary.
Source: U.S. Department of Commerce, Bureau of Economic Analysis; and Tax Foundation computations.

Tax Index Declines In Second Quarter As Profits Drop

The Tax Index in the second quarter of 1980 slid to 355.1 (1967 equals 100) from 359.6 in the first quarter. This represented a decline at an annual rate of 4.9 percent, and marked the first quarterly drop in the Tax Index in five years.

The latest quarter's fall in the Index, which occurred in both Federal and state-local taxes, reflected a sharp decline in corporate profits tax accruals. Virtually all other taxes continued to rise.

The previous reduction in the Index, experienced in the second quarter of 1975, was a temporary one due solely to a statutory rebate in Federal income taxes; state-local taxes continued to climb.

In the second quarter of 1980, in contrast to the Tax Index, nominal gross national product rose very slightly (at an annual rate of 0.5 percent), and prices continued their upward spiral at an annual rate of 10.5 percent.

At a level of 355.1 in the second quarter, the Tax Index remained well above the GNP index of 317.0 and the price index of 226.5 (all on the 1967 base).

The accompanying table presents the Tax Index, along with related measures, on a quarterly basis for 1978 to date.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Inc.

"Beyond the Ballot Box"

It's that time of year, and the exaggerated rhetoric and campaign hoopla are something that we Americans cherish just as much as we sometimes cherish throwing pop bottles at the umpires at the ballgame. It's something non-Americans never really understand.

At the Tax Foundation, we must walk a more restrained path, ever mindful that the credibility of an organization like the Foundation is always on the line. For us to take such a freewheeling approach would hamper our effectiveness. It might take people's minds off the real issues at stake.

A lot of lip service has been paid this past year to restraining government spending, balancing the budget, enacting a constitutional amendment to require a balanced budget or limiting Federal spending to a percentage of the nation's total income or output.

These kinds of issues have been in the public policy debates all year long. And they are going to be around for at least another congressional session.

There is a deep-seated recognition today from many quarters that our tax and fiscal policy is on the wrong track, that we really need to get on with restoring the capital stock of this country, that we can't continue to tax it away or else we'll simply get to the point where there isn't anything left to tax.

I believe it was J. S. Mill who pointed out that the interest of government is to tax heavily, that of the community is to be as little taxed as the necessary expenses of the government permit. In a nutshell, that's still the big issue. The interest of the government is to tax heavily, to provide for all of the programs that the government believes the people should be exposed to. But the people who have to pay the taxes are not always willing to continue to pay for the other guy's pet programs. Another observation of Mill's is this: The very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of those who hold power, not because this always happens but because such is the natural tendency of things. Guarding against this tendency is the special use of free institutions.

Behind all the rhetoric and all the election hoopla, that is still one of the major issues confronting our nation this fall, regardless of who is elected on November 4. The Tax Foundation's contribution to the evolution of public policy is to provide the economic and fiscal data for that debate in an objective fashion. It is very frustrating to come from such an organization and, in dealing with the political elements of government, to see that data misused, distorted for short-term gain, or ignored—frustrating, but also greatly challenging.

In my opinion, unless we meet the challenge and continue to keep these basic issues on the front burner, no matter who wins in November, we will all end up losers.

State-Local Pension Assets Climb; Governments Now Pay Lion's Share

Thanks largely to taxpayer contributions and high investment earnings, the financial assets of state-local employee pension systems chalked up a $19 billion gain in fiscal year 1979, rising to a new high of $161.6 billion, Tax Foundation economists report. Holdings of these pension funds are now almost nine times as large as they were in 1960 and three times their size as recently as 1975.

Annual receipts of the funds mirror this trend in assets, and also reflect a gradual shift in financing on the part of governments (taxpayers), investment earnings, and employees. Total receipts amounted to $31.9 billion in fiscal year 1979, more than nine times receipts in 1960. Over the 19-year span, government contributions accounted for 48 percent of the rise in annual receipts, investment earnings for 35 percent, and employee contributions for 17 percent. Investment earnings have shown the fastest relative growth over the years, and thus somewhat obscure the shifting mix of employee versus employer contributions. For example, in fiscal 1979, for every dollar contributed by employees to the systems, taxpayers put up $2.51. In contrast, in 1960 taxpayers paid just $1.55 for every dollar of employee contributions.

Nineteen years ago, Foundation economists note, state-local retirement systems had total receipts of $3.4 billion, of which $1.1 billion (32.4 percent) was derived from employee contributions, $1.7 billion (50 percent) from government contributions, and $0.6 billion (17.6 percent) from earnings on investments. By 1979, total receipts had risen to $31.9 billion, and the mix had altered sharply.

State and local governments poured $15.3 billion (48 percent) into their retirement systems in 1979 while employees were supplying less than half that amount ($6.1 billion, or 19.1 percent), considerably less than investment earnings which provided $10.5 billion (32.9 percent).

In 12 states and the District of Columbia, governments supplied more than half of the pension fund reve-

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About Tax Features

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Pension Assets

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nues: Delaware (65 percent), Michigan (63 percent), District of Columbia (63 percent), Oklahoma (61 percent), New York (58 percent), Florida (57 percent), Connecticut (55 percent), Indiana (55 percent), Tennessee (54 percent), Maine (53 percent), Massachusetts (51 percent), and Pennsylvania (51 percent). In only one state, New Hampshire, do public employees contribute less than one-third (28 percent) of pension fund receipts.

Assets and Annual Receipts of State and Local Employee Retirement Systems

Selected Fiscal Years 1960-1979

(Billions)

Year	Cash and security holdings[a]	Receipts by source: Total	Employee contributions	Government contributions	Investment earnings
1960	$ 18.5	$ 3.4	$1.1	$ 1.7	$ .6
1965	31.8	5.3	1.6	2.4	1.2
1970	54.9	9.8	2.8	4.6	2.5
1975	98.1	18.9	4.5	9.1	5.3
1976	111.5	21.6	4.8	10.5	6.3
1977	123.5	25.3	5.2	12.4	7.7
1978	142.6	28.0	5.7	13.6	8.7
1979	161.6	31.9	6.1	15.3	10.5

[a]As of end of fiscal year.

Source: Compiled by Tax Foundation from annual reports of the U.S. Department of Commerce, Bureau of the Census.

Receipts of State and Local Employees' Retirement Systems by State

Fiscal Year 1979

State	Amount (millions): Total receipts	Employee contributions	Government contributions	Earnings on investments	Percent of total receipts: Employee contributions	Government contributions	Earnings on investments
TOTAL	$31,949.5	$6,068.6	$15,336.4	$10,544.5	19	48	33
Alabama	393.1	81.6	190.6	120.8	21	48	31
Alaska	156.4	33.4	76.5	46.5	21	49	30
Arizona	375.5	109.1	127.6	138.9	29	34	37
Arkansas	170.7	36.8	83.4	50.5	22	49	30
California	5,260.3	1,031.3	2,502.7	1,726.3	20	48	33
Colorado	431.9	111.9	171.5	148.5	26	40	34
Connecticut	394.2	78.1	215.1	101.1	20	55	26
Delaware	71.6	9.4	46.2	16.0	13	65	22
Florida	838.2	45.3	477.2	315.6	5	57	38
Georgia	504.5	123.3	223.5	157.7	24	44	31
Hawaii	218.4	56.5	72.9	89.1	26	33	41
Idaho	77.2	22.4	35.6	19.2	29	46	25
Illinois	1,717.4	475.2	712.5	529.7	28	41	31
Indiana	311.2	60.7	170.1	80.4	20	55	26
Iowa	258.7	56.4	109.2	93.2	22	42	36
Kansas	201.6	47.2	96.6	57.7	23	48	29
Kentucky	325.6	85.1	142.8	97.7	26	44	30
Louisiana	469.6	129.6	172.6	167.3	28	37	36
Maine	102.6	30.5	54.1	17.9	30	53	17
Maryland	574.7	129.7	262.6	182.3	23	46	32
Massachusetts	750.1	203.7	379.9	166.5	27	51	22
Michigan	1,386.1	73.2	868.6	444.4	5	63	32
Minnesota	558.2	132.2	266.4	159.7	24	48	29
Mississippi	226.6	75.5	87.1	64.0	33	38	28
Missouri	435.3	90.5	180.6	164.1	21	41	38
Montana	97.1	32.9	35.1	29.0	34	36	30
Nebraska	67.2	17.8	23.4	26.0	27	35	39
Nevada	121.9	16.4	53.6	51.9	13	44	43
New Hampshire	47.3	19.1	13.2	15.0	40	28	32
New Jersey	948.5	199.3	426.6	322.6	21	45	34
New Mexico	146.4	42.1	54.1	50.2	29	37	34
New York	4,993.4	201.9	2,911.4	1,880.1	4	58	38
North Carolina	637.6	161.5	237.5	238.5	25	37	37
North Dakota	29.9	9.4	11.4	9.2	31	38	31
Ohio	2,020.9	508.8	823.4	688.7	25	41	34
Oklahoma	227.4	37.6	137.9	51.8	17	61	23
Oregon	288.0	88.1	128.4	71.5	31	45	25
Pennsylvania	1,726.2	326.6	878.4	521.2	19	51	30
Rhode Island	102.3	28.8	41.0	32.6	28	40	32
South Carolina	306.1	76.0	108.2	121.9	25	35	40
South Dakota	49.8	16.9	18.6	14.3	34	37	29
Tennessee	476.6	96.6	256.6	123.4	20	54	26
Texas	1,198.8	370.8	444.6	383.4	31	37	32
Utah	170.9	61.9	67.4	41.6	36	39	24
Vermont	38.7	9.1	13.0	16.6	24	34	43
Virginia	421.3	125.0	172.8	123.6	30	41	29
Washington	630.4	156.7	288.5	185.1	25	46	29
West Virginia	154.3	43.4	74.3	36.7	28	48	24
Wisconsin	749.3	65.2	348.8	335.3	9	47	45
Wyoming	50.7	16.7	17.9	16.1	33	35	32
Dist. of Columbia	38.8	11.4	24.3	3.1	29	63	8

Source: Department of Commerce, Bureau of the Census, and Tax Foundation computations.

Investments generated the highest proportion of revenue income in Wisconsin (45 percent of the total), Vermont (43 percent), Nevada (43 percent), Hawaii (41 percent), and South Carolina (40 percent). The lowest percentages of earnings from pension fund investments were obtained in Oklahoma (23 percent), Delaware and Massachusetts (both 22 percent), Maine (17 percent), and the District of Columbia (8 percent).

Not only has there been a significant change in current financing of state-local pension systems as compared with 1960, but there has also been a drastic shift in the composition of investment portfolios of public pension funds, Tax Foundation analysis reveals. Federal and state-local securities, which in 1960 comprised more than half the total, amounted to less than one-fifth (18 percent) by 1979. Conversely, corporate stocks and bonds, which made up about one-third in 1960, now account for 63 percent. However, the figures for 1979, as did those for 1978 and 1977, show some partial reversal of this over-all, long-range trend. While government securities made up but 11 percent in 1976 (and 16 percent in 1978), they now constitute 18 percent. At the same time, corporate stocks and bonds which comprised 74 percent in 1960 (66 percent in 1978) now make up but 63 percent.

The accompanying tables show receipts of state-local retirement systems by source for 1979 and also assets and annual receipts of these systems for selected years since 1960.

State Taxes

(Continued from page 1)

Fastest growing offspring in the family of state taxes are individual and corporate income levies, according to economists at the Tax Foundation. From 1969 to 1979, individual income taxes chalked up the highest average annual growth rate (15.8 percent). Corporate income taxes were second (14.3 percent), while general sales taxes placed third (12.2 percent). Since 1969, the combined share of individual and corporate income levies has grown from 25.6 percent of total state taxes to 35.8 percent.

General sales taxes, the Foundation's researchers point out, continue to be the largest single source of state tax revenues, accounting for 31.6 percent of the tax take in 1979. Individual income taxes are next, comprising 26.1 percent of the total. Selective sales taxes (combined) run third at 19.3 percent, followed by corporate income taxes at 9.7 percent.

The state tax profile outlined by Tax Foundation economists shows a great diversity in tax structure:

- Nine states have no broad-based personal income tax. These are Connecticut, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

- Five states have neither a corporate income tax nor a personal income tax. These are Nevada, South Dakota, Texas, Washington, and Wyoming. (The 45 remaining states impose a corporate levy.)

- Washington State has the highest dependence on general sales tax in the country, deriving 56.1 percent of its tax revenues from this source. South Dakota is second most dependent on general sales, which account for 53.2 percent of the state's tax revenues.

- Per capita income taxes are highest in Delaware ($371), Oregon ($319), and Minnesota ($309), compared with a national average of $149.

Tax Index

(Continued from page 1)

The Tax Index is a new fiscal yardstick unveiled in May 1980 by Tax Foundation economists. The Index is designed to provide a continuing measure of trends in taxes, on a basis comparable to official indexes for other segments of the economy. (For other perspectives on the Tax Index see *Monthly Tax Features*, May 1980 and August 1980.)

- Corporate taxes, per capita, are highest in Alaska ($633), Michigan ($108), and California ($105), compared with a national average of $55. (Alaska's 1979 corporate tax collections catapulted 667 percent over 1978, reflecting a legislative change in the methods used for computing, allocating, and apportioning the taxable income of multistate oil and gas producers and pipeline transportation companies, effective January 1, 1978. The tax rate remains unchanged.)

- The state most dependent on individual income taxes for revenue is Oregon, which derives 58.3 percent of state levies from this one source. Massachusetts is second (45.1 percent); Delaware, third (43.9 percent); New York, fourth (43.5 percent); and Wisconsin, fifth (42.2 percent).

The table below shows the growth pattern and makeup of state tax revenues for selected years from 1969 to 1979.

TF Dinner/Conference Will Hear Addresses by McCracken and Volcker

Tax Foundation's 32nd National Conference and 43rd Annual Dinner will take place December 3 at New York City's Plaza Hotel. As reported in the August issue of *Monthly Tax Features*, the theme of this year's Conference is "Tax Policy, the Budget, and Unemployment." The day-long Conference will explore major tax and fiscal issues confronting the U.S. economy at the beginning of the 1980s and will feature analysis and discussion by leading authorities and public officials.

Paul W. McCracken, former chairman of the President's Council of Economic Advisers and currently Edmund Ezra Day University Professor of Business Administration at the University of Michigan, will be the featured speaker at the Luncheon.

The Honorable Paul A. Volcker, Chairman of the Board of Governors of the Federal Reserve System, will receive Tax Foundation's Distinguished Public Service Award for 1980 at the Foundation's Annual Dinner. Mr. Volcker will be the featured speaker at the Dinner, which will be held in the Grand Ballroom of the Plaza Hotel.

For the convenience of our readers, the Reservation Form for the Conference and Dinner on December 3 is attached.

Composition and Growth of State Tax Revenues by Source

Selected Fiscal Years 1969-1979

Fiscal year	Total state taxes[a] (millions)	General sales, use, or gross receipts	Motor vehicle fuel sales	Tobacco products sales	Alcoholic beverage sales and licenses	Motor vehicle and operators' licenses	Individual income	Corporate net income	All other[b]
		Percent of total							
1969	41,931	29.7	13.5	4.9	3.3	6.4	18.0	7.6	16.6
1974	74,207	30.5	11.1	4.4	2.8	5.1	23.0	8.1	15.0
1975	80,155	30.9	10.3	4.1	2.6	4.9	23.5	8.3	15.4
1976	89,256	30.6	9.7	3.9	2.5	4.9	24.0	8.1	16.3
1977	101,085	30.6	9.0	3.5	2.3	4.5	25.2	9.1	15.8
1978	113,142	31.1	8.4	3.2	2.2	4.3	25.7	9.5	15.6
1979	124,963	31.6	8.0	2.9	1.9	3.8	26.1	9.7	16.0
		Percentage rates of growth, 1969-1979							
Annual	11.5	12.2	5.9	5.9	5.7	5.9	15.8	14.3	11.1
Cumulative	198.0	217.5	76.8	77.0	74.0	78.0	333.4	281.4	187.2

[a]Excludes unemployment insurance taxes.
[b]Includes other selected sales and gross receipt taxes, licenses, property, severance, death and gift, and miscellaneous taxes.
Source: Department of Commerce, Bureau of the Census, and Tax Foundation computations.

TAX FOUNDATION CONFERENCE/DINNER
DECEMBER 3, 1980

Tax Policy, the Budget, and Unemployment

MORNING SESSION—9:00 A.M.

Chairman: Wallace J. Clarfield
Vice President
Olin Corporation

"Tax Policy and the Budget"

I. 1981 Economic and Fiscal Policy Outlook—Has "Supply-Side" Economics Taken Over?

—John M. Albertine, Executive Director, Joint Economic Committee

—Richard W. Rahn, Vice President and Chief Economist, Economic Policy Division, Chamber of Commerce of the United States

QUESTION PERIOD

II. The Congressional Budget Process—Can it Work? "Reconciliation," "Sunset," and Other Stratagems—Implications for Tax and Expenditure Policy in the 1980s

—John J. King, Tax Specialist, Committee on the Budget, U.S. House of Representatives

—Allen Schick, Specialist in American Government and Public Administration, Congressional Research Service, Library of Congress

—Paul Craig Roberts, Senior Fellow in Political Economy, Georgetown University Center for Strategic and International Studies

QUESTION PERIOD

LUNCHEON SESSION—12:15 P.M.

Chairman: David M. Roderick
Chairman of the Board and
Chief Executive Officer
U.S. Steel Corporation
President, Tax Foundation, Inc.

III. Reindustrializing America

—Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration, University of Michigan

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AFTERNOON SESSION—2:15 P.M.

Chairman: Ralph R. Adams
Director, Unemployment and
Workers Compensation Activity
General Motors Corporation

"The Unemployment Insurance System—Which Way Ahead?"

IV. Financing Problems of the 1970s—What Went Wrong?

—E. H. Kay, Tax Attorney, Sears, Roebuck & Co.

V. Recommendations of the National Commission on Unemployment Compensation

—Labor View ..... Edward T. Sullivan, Business Manager, Service Employees International Union Local 254

—Industry View ..... J. Eldred Hill, Jr., Executive Director, UBA, Inc.

QUESTION PERIOD

32nd National Conference

9:00 A.M. Conference Sessions: $30 Baroque Suite

12:15 P.M. Reception and Luncheon: $30 Grand Ballroom

43rd Annual Dinner

6:30 P.M. (Black Tie Optional) Reception and Dinner: $65 Grand Ballroom

IMPORTANT NOTES

Your reservation will be acknowledged by the Tax Foundation. Tickets will be mailed prior to the Dinner and Conference. Notice of cancellation must go to Ms. Betty Austin (202) 328-4540 and tickets must be returned for refund. Full refunds will be made before November 24; after that, there will be an 80 percent refund on the return of tickets. No refunds after Conference date. Requests for hotel accommodations should be sent directly to the hotel of your choice. Conference attendees will receive the published **Proceedings.**

Detach and Return Lower Half

Reservation Form

To: **Tax Foundation, Inc.** / 1875 Connecticut Avenue, N.W. / Washington, D.C. 20009

Please make the following reservations. **Enclosed is check payable to Tax Foundation, Inc. in the amount of $ _____.**

NAME TITLE	CHECK FOR		
	Conference Sessions	Luncheon	Dinner

COMPANY: _____

(Please Print)

ADDRESS: _____